

# South African relations with China and Taiwan

## Economic realism and the 'One-China' doctrine

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# **South African relations with China and Taiwan - Economic realism and the ‘One-China’ doctrine**

**Research Report**

**by**

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## 1 Introduction

In a step that can be regarded as a normalisation of South African diplomatic relations, Pretoria switched diplomatic allegiance towards the People's Republic of China (hereafter the PRC or China) in 1998. In line with the usual requirements of the PRC, South Africa's new relations with the PRC entailed an official renouncement of ties with the Republic of China (ROC, hereafter Taiwan) and the recognition of the "One-China" policy in which Taiwanese sovereignty is viewed as illegitimate. While territories in conflict often witness a parallel decrease in trade with one another, Taiwan has bucked this trend with regard to the PRC (Kastner 2007: 664), where trade and investment flows between the various territories are substantial; Taiwan is amongst the major investors on the Chinese mainland. Following on from this, Taiwan faces little opposition from the PRC in terms of its trade with foreign nations, of which South Africa is no exception. How do these economic relations continue to flourish within such an exclusionary political environment?

As its primary question, this report examines the extent of political reach into the economic exchanges occurring between China, Taiwan, Hong Kong and South Africa. Our report focusses on South Africa's ability to navigate its way through this challenging relationship, highlighting South Africa's ability to adapt to new political contexts. The work highlights how trade and investment underlie South Africa's foreign policy towards East Asia, and how this underlying pragmatism exists in tension with official policy.

### *What is Economic Diplomacy?*

Economic diplomacy is fundamentally concerned with state formulation of economic policy by a given state or group of states, vis-à-vis other states. Crucial to the practice is a balancing-act in which states attempt to promote their own domestic interests via economic leveraging. An overt, and somewhat extreme, example of economic diplomacy is the "carrot and stick" practice of economic sanctions (Bergeijk 1994), in which either economic rewards or punishments are bestowed on the beneficiary country so as to achieve some domestic political or economic aim, such as human rights improvements or the lowering of economic barriers. Such actions can sometimes have unwanted effects. For instance, the 1990 trade embargo on Iraq imposed by member states of the United Nations Security Council (UNSC) included sanctions on medical supplies, which led to the deaths of several hundred children. This led to a concerted backlash by communities within the UNSC countries who objected to their governments acting in this way. In this sense, conducting economic diplomacy has been characterised by Robert Putnam as a "two-level game"—one in which states act for reasons of domestic interests, and the other at the level of international negotiation; the aim is to achieve some sort of "general equilibrium" between the two (1988: 430; see also Odell 2000). Usually, and less dramatically, diplomatic relations are used to "open doors" for key domestic industries in foreign countries, e.g. via business delegations accompanying high-level politicians on state visits, or diplomatic missions actively showcasing important economic sectors via organised trade fairs or the like.

With the rise of the market economy on a global scale and the subsequent emergence of multilateral institutions such as the World Trade Organization (WTO), scholars have argued that understanding economic diplomacy as simply a practice of diplomats from Country A engaging with diplomats from Countries B and C has become more complicated. Bayne and Woolcock

(2007) argue that from the late 1990s to the 2000s, a noticeable shift occurred in this form of engagement. Whereas prior to this period, global economic diplomacy was dominated by permanent officials from a few powerful countries, we now see a process which is shaped, not only by diplomats, but also by business, civil society, non-government organisations and international organisations (Hill 2003: 8). This multi-actor approach to international relations signifies a more general turn in the field of international relations. Another advocate of this expanded field can be found in the work of Susan Strange, who highlights the formidable power of business interests in the shaping of global affairs (1988). In many respects, it is true that shifts in the global economy have precipitated this new multiplicity of actors, although one wonders whether such plurality has not always been the case and that its recent recognition reflects more a shift in analytical methods, as opposed to any shift in political reality.

Christopher Hill has argued that international relations go beyond “formal self-descriptions”, and rather focus on processes which are “open, comparative, conceptual, inter-disciplinary and range across the domestic-foreign frontier” (2003: 10). This is particularly relevant to the role of economic diplomacy within an increasingly-globalised world, where international trade and the rise of powerful global economic institutions function as increasingly-powerful tools in foreign diplomacy (Bayne and Woolcock 2007). South Africa’s engagement with the PRC is shaped by a number of players, including China’s development banks, State-Owned Enterprises (SOEs) and the private sphere. While in the PRC such entities exert influence in tandem with a powerful government, in Taiwan and Hong Kong, economic institutions become the dominant mode of influence. With regard to Taiwan, diplomatic actors are often downgraded to the level of “liaison officers”; their use of business for political leverage becomes a tool of engagement. For Hong Kong, diplomatic accreditation (and thus range of action) is limited to the special administrative region (SAR). Consequently, mere political motivations are unlikely to be a main driver for diplomatic relations. However, Hong Kong is a major economic hub in East Asia and hosts a number of economic players. An important part of this research project was to determine how the South African government is trying to make the most of relations with various parts of China (i.e. the PRC, Hong Kong, and Taiwan) for South African development. An additional interest is the role of companies in this political endeavour: companies can co-opt and even dominate political instruments for their own ends and, in doing so, will make the case that not only is economic diplomacy a multi-sited affair, but that the centre of gravity may well lie with the companies, casting the role of diplomacy to the back ground.

This research also contributes to filling a gap in the knowledge regarding South African-Taiwanese relations in the post-Apartheid era. While work which speculates on possible shifts in Taiwan-South African relations on the eve of South Africa’s diplomatic switch has been conducted (Davies 1998), little detailed work has been carried out on the relationship since then. The work also offers a new dimension on South Africa’s relationship with the PRC, insofar as it is analysed through the prism of its relations with Taiwan. In light of criticism that African countries tend to be subservient towards an increasingly-powerful Beijing (Taylor 2011), the report takes a closer look at South Africa’s agency – via the vehicle of economic diplomacy – for negotiating with Beijing in this asymmetric relationship.

The report is based on engagement with significant institutions and companies involved the relationship between South Africa and the PRC, and South Africa and Taiwan. Crucial qualitative



data include structured and semi-structured interviews with important political actors in order to get an understanding of how South African diplomacy functions in relation to Taiwan and the PRC. On the Taiwanese side, key players include its Gauteng Liaison offices, the Taiwanese Ministry of Foreign Affairs and the Africa Taiwan Economic Forum (which fosters political and economic relations with its various African partners). On the South African side, we engaged with the Pretoria Liaison office, the South African Department of Trade and Industry (DTI) and the Department of International Relations and Cooperation (DIRCO). Research on the PRC built on a long and comprehensive track-record of research by the Centre for Chinese Studies (CCS) and included interviews with the PRC's Ministry of Foreign Affairs (MFA) and the Ministry of Commerce. Within South Africa, it included interactions with the PRC's Embassy and its Consulate in Cape Town. The research project also engaged with Taiwanese and Chinese businesses in South Africa, particularly in the technology industry.

## **2 South African economic diplomacy**

The end of Apartheid resulted in the end of the international diplomatic isolation of South Africa. This consequently led to the lifting of economic sanctions that had been placed against the Apartheid regime. South Africa's government thus found itself in a situation of reinventing South African foreign relations, at least realigning them to new partners and making use of new opportunities, as well as engaging in mitigating new global risks in an increasingly-globalised economy.

After 1998, South Africa, a relatively-small economic power, was internationally competitive in certain sectors (e.g. agriculture), but had suffered from international isolation in others (e.g. manufacturing). In a different to previously domestic political setting (i.e. respect for workers' rights; diversification of ownership by race) the country's economy now had to survive in an increasingly-competitive and complex global economic environment. South Africa's foreign policy was subsequently (re)shaped in order to meet this end. It did, however, oscillate between the demand for moral politics and, less articulated initially, for the narrower self-interest of its economy in order to realise the transformation into a post-Apartheid society.

### **2.1 Background to South African foreign economic policy**

In the 1990s – after the end of Apartheid – South Africa was re-connecting to the world and rethinking its foreign relations. This “reaching out to the world” after political isolation possessed many facets including an “exploration” of much of East Asia in the mid- to late-1990s. South Africa's Asia relations underwent realignment – and somewhat consequently saw a change of diplomatic relations from Taiwan to the PRC. Hong Kong and Macau have become SARs of the PRC, while Taiwan consistently insists on self-determination beyond the PRC. Fifteen years after the realignment, this report is meant as a stock-taking of relations between the various parts of the “One-China” policy. This is necessarily a partially-historical endeavour. The main focus of the report, however, is on how economic relations evolve in a political environment skewed in favour of one partner over the other, through an imposed “One-China” policy by Beijing; it also asks whether South Africa is making use of opportunities with these various quarters that China is offering in a changing East Asian political setting.



Post-Apartheid society faced a vast array of challenges and saw the need for partners as crucial to overcome a burdensome legacy. Not least, inspiration for development models was sought by the new Administration. A series of high-level visits took place during the 1990s. President Mandela visited Japan and South Korea in July 1995, after diplomatic relations with Japan had started in January 1992 and had become full relations in 1994 after the lifting of UN sanctions against Apartheid South Africa. Then Deputy President Thabo Mbeki visited Japan and South Korea in 1998, explicitly speaking of inspiration sought for the African Renaissance from the Meiji Restoration in Japan (Alden 2002), which triggered Japan's modernisation in the late 19<sup>th</sup> century. East Asia, with its flourishing economies and rapid economic development, promised to offer insights which would generate broad-based economic development. After the Cold War and at a time when the African continent sought growth models after depressing experiences with (failed) structural adjustment dictates in the 1980s, East Asia and its "Tiger states" clearly were *en vogue* in the 1990s. This interest was somewhat interrupted by the Asian Financial Crisis in 1997, yet saw a new surge with a China-specific focus in the first decade of the 21<sup>st</sup> century.

Along with the economic interest from South Africa, political developments were a crucial backdrop to the interest in East Asia. The change towards democracy in South Africa happened a few years after Asian "people's power movements" led to a surge in democratisation in Asia in the late 1980s (e.g. Taiwan, South Korea, the Philippines). Additionally, this happened only few years after the Tiananmen protests in Beijing and the crackdown of 1989. The PRC had resisted the global fall of communist political systems by violent means while liberalising its economy, making it a difficult cooperation partner. In this context, in the mid-1990s, the first post-Apartheid South African government under President Nelson Mandela did not immediately switch to recognise the PRC. Rather, as a continuation of past policies, it initially maintained linkages with Taiwan, which – similar to other Asian countries – had become a multiparty democracy in the 1980s. This continuation was despite early contacts with Beijing already by the then-Apartheid regime in 1991 (Shelton 2008), but in line with a rather idealist new South African foreign policy, stipulating "that just and lasting solutions to the problems of humankind can only come through the promotion of democracy worldwide" (Mandela 1993). South African national interests are often presented in tandem with (if not eclipsed by) an African Agenda that South Africa wants to promote, based on the awareness that South Africa cannot be an island of prosperity amongst poor countries. Little is thus stated about crucial bilateral partners and much emphasis is put on multilateral engagement. China as a bilateral partner – or the rest of Asia, for that matter – did not originally enjoy a high foreign-policy priority in Pretoria. This has changed, particularly following the political shift from the Mbeki to the Zuma Administration.

By the mid-1990s, economic reforms in China were starting to bear fruit. A realignment of South Africa's foreign policy in East Asia became increasingly unavoidable for realist reasons; China, whose economic clout was growing dramatically, was one of the veto powers in the UNSC. China reported an unprecedented growth in its economy and great progress in reducing absolute poverty, making the country an indispensable regional – and also global – power. Reasons for and against diplomatic recognition of the PRC were thus a focal point of obvious tension between idealist goals and realist demands in South Africa's nascent foreign policy during the Mandela government. South African post-Apartheid foreign policy has been viewed in some quarters as overtly idealistic and inflexible (Le Pere and Van Nieukerk 2004). It is noteworthy in this context that Western powers faced a similar quagmire in their foreign policies after the

Tiananmen crackdown. The balance between demand for respect of (political) human rights and economic interest in the vast market of Mainland China posed a challenge to European and US foreign policies in which domestic demands to react to the Tiananmen events did not impede cooperation based on realist foreign policy (Ross 2000). However, in the South African context, the case of the PRC is often neglected as an early challenge in the analysis of “idealist vs realist” foreign policy, presumably as other regionally more-immediate challenges presented themselves to post-Apartheid South Africa (see, for instance, Nathan 2005).

The looming handover of Hong Kong from British colonial rule to a SAR of the PRC in 1997 provided good enough reasoning for the overdue realignment of policies, despite intense lobbying by Taipei. At the time, most South African business interests were located in Hong Kong. The occasion of changes in Hong Kong’s status allowed South Africa – despite its idealist policy – to follow the realist move towards recognising Beijing that had already been undertaken by most of the African continent and the entire OECD world in the early 1970s.<sup>1</sup>

## **2.2 Policies and actors in South African economic diplomacy**

South Africa’s economic diplomacy manifests at various levels. The country has actively pursued its interests at multilateral organisations such as at the WTO. It has also expanded its economic ties in the region and continent through various mechanisms and bilateral relations and it has become a noticeable player (Vickers and Ajulu 2008). Economic diplomacy in South Africa can be expected to be exercised in at least two government departments: DIRCO and the DTI. These two departments are named as those meant to operationalise the content of South African economic diplomacy in a presentation to Parliament of September 2012, with additional attention given to Tourism SA; Brand SA; the Provincial Marketing Boards; and the private sector (DIRCO 2012). The aim of the Economic Diplomacy Strategic Framework was explicitly to “provide [three] areas of clarity in the practise of [South African] foreign policy;

1. Provide a conceptual framework and tools for the practise of ED [Economic Diplomacy];
2. Strengthen link between foreign policy and domestic policy;
3. Distinctly draw out SA’s [South Africa’s] economic and commercial dimension in foreign policy.” (DIRCO 2012).

According to the DIRCO’s statement, the guideline for economic diplomacy should be South Africa’s strategies and policies for the goal of economic development. This is hoped to be

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<sup>1</sup> The recognition of the PRC’s indispensable political weight in Asia and globally had ultimately allowed Beijing to become the representation of China in the UNSC as one of the five veto powers in 1971. Many votes of newly-independent African countries helped to swing the vote in the UN General Assembly. Other OECD countries changed their policies towards recognising China at the expense of nationalist Taiwan at around the same time, e.g. Canada in 1970, Italy in 1971, the UK in 1972, Spain in 1973, Australia in 1975 and Portugal in 1979. France, in a statement of its independent foreign policy under General de Gaulle, had already changed diplomatic relations to the PRC in 1964. On behalf of the US government, Henry Kissinger visited China twice in 1971 in order to prepare the establishment of formal diplomatic relations between the US and the PRC (Kissinger 2011). With US President Richard Nixon’s visit to China in 1972, liaison offices were established; the full diplomatic US recognition of the PRC ultimately came in January 1979.

achieved “by pursuing market access for SA products, engaging in the promotion and attraction of investment to SA, promote tourism, enhance the image and nation brand of SA” (DIRCO 2012). The policies to be pursued should explicitly aim at the economic needs of South Africa, “as well as advance the African Agenda / Africa’s economic development” (DIRCO 2012). Various partnerships are mentioned, including South-South Cooperation (alongside sub-regional engagement in the Southern African Development Community (SADC), North-South Cooperation etc. Training engagement for DIRCO staff with regard to economic diplomacy tools (including in Asia) are listed in the presentation.

The DIRCO organises the international representation of South Africa and thus gives a “face” to the country. Much of the direction on content and specific focus areas should be provided by DTI planning (i.e. in the DTI’s policy on industrialisation). These two departments need a high degree of coordination between them to be successful.

The DIRCO’s operating principles suggest that a relatively high value is attributed to diplomatic engagement for socio-economic purposes. The DIRCO’s guidelines affirm its “commitment to economic development through regional and international cooperation in an inter-dependent world” as the sixth principle (of six) to guide “the conduct of South Africa’s foreign policy”. Other stated principles are the promotion of human rights, democracy, and a commitment to international law and peaceful solutions (DIRCO 2011). More specifically on economic diplomacy, the ministerial foreword to the strategic plan 2011 to 2014 by Minister Nkoana-Mashabane states that:

*“Given [the South African] government’s focus on job creation and the relative positive implementation of Africa’s socio-economic blue-print (NEPAD), it is evident that our engagement with the Asia and Middle East Region will continue to be driven by both political and economic considerations. Amongst others, we will continue to find creative ways of supporting our country’s New Growth Path through attracting Foreign Direct Investments (FDI) for identified priority areas i.e. Energy, Transport, Agriculture and Agro processing, Mining (Beneficiation), Manufacturing (Green technologies) and Tourism” (DIRCO 2011: 4).*

This statement is followed by a sketch of main partners, interestingly starting with Asia as the region with the highest “financial liquidity”, and singling out China, Japan and South Korea.

Given persistent challenges and lack of progress (if not regression) with regard to employment and inequality in South Africa’s post-Apartheid society, the Zuma Administration declared a “New Growth Path” in 2009. This policy was elaborated on and announced by Minister Ebrahim Patel, Minister for Economic Development, which indicates a larger number of involved parts of the Administration other than just the two in focus in this report. Other ministers of the Zuma Administration directly or indirectly involved in policy-making with implications for the direction and depth of economic diplomacy are the Minister in the Presidency in charge of the National Planning Commission, Trevor Manuel, as well as Finance Minister Pravin Gordhan. In an undated report by the DTI, the “New Growth Path” is explained: “In essence, the aim is to target our limited capital and capacity at activities that maximise the creation of decent work opportunities.” (DTI n.d.)

The DTI will, in a coordinated government, have to operate according to these defined overall policy directions that are strongly overlapping, but will not always be fully identical with regard

to the emphasis they put on different aspects. The DTI's Industrial Policy Action Plan of 2012-2015, for instance, states that it is operating in the context of the New Growth Path, launched in 2010, and is thus focussing on manufacturing:

*Long-term development needs to be underpinned by higher growth in the production sectors, led by manufacturing. This is due to the fact that the economy is not made up of a set of discrete and isolated activities, but rather sectors that are fundamentally interlinked.* (DTI 2012: 20)

Curiously, international investors are absent from the DTI's Industrial Policy Action Plan of 2007 (DTI 2007). The perspective of this document is predominantly internal and there is no mention of how to attract further investment or how to create an enabling environment for this; the emphasis is on planning and sector-specific support, including the automotive industry. The discussion, however, largely ignores the fact that these industries often involve investments from abroad, not least the automotive industry. In the updated Industrial Policy Action Plan of 2012-2015, the global environment appears as a limiting factor in progress on implementation. In the analysis of structural imbalances, reference is made to the continued growth in other BRICS countries, namely Brazil, India and China, which is said to have been due to different policies, focussing on the productive sector (DTI 2012: 22). In the same report, "increased foreign and domestic investment" (DTI 2012: 50) is mentioned as an aspired-to policy outcome for Special Economic Zones (SEZs) in South Africa. Then only on the subsequent page is South-South Cooperation mentioned, just after development aid by Western countries which plays an important role "in many African countries": South Africa is to "explore how [it] can work with large developing countries that have large financial and other resources which African countries could benefit from through strengthened partnerships" (DTI 2012: 51). What follows is a brief outline of actions on regional integration, including the North-South (infrastructure) corridor. The same policy document mentions potential in foreign investments through mergers, particularly in the white goods industry:

*Foreign direct investment in the form of the merger bodes well for the development of the South African white goods industry. The envisaged spin-offs include increased productive capacity and strengthened technological infrastructure with energy efficiencies, lower production costs and competitive South African-produced goods. The merger is an indication of confidence in the South African industry as it provides a platform for growth and expansion into Africa. It also provides an opportunity for South African components manufacturers to enter global supply chains.* (DTI 2012: 61)

Other sectors with potential for foreign investments that are mentioned are: upstream oil and gas services and equipment (including ship repair, for instance); a National Marketing Initiative for the South African upstream clusters; a brief highlight on infrastructure needs; and opportunities in the pharmaceuticals sector (DTI 2012). The only real initiative for broader economic diplomacy appears to be the marketing initiative for the upstream cluster. The policy action plan, however, remains largely mute on target markets other than those on the African continent.

Little is said about a specific South African policy stance towards key global partners beyond the rest of the African continent; the "African Agenda" takes the pole position and is (implicitly) equalled to South Africa's national interest. From this perspective, it is not surprising that bilateral relations with big economic players or targeting export markets are points that are

apparently not discussed in any detail in the Industrial Policy Action Plan, which might be regarded as a major weakness from an economic diplomacy perspective.

In a nutshell, a number of policies exist which feed into and, to various degrees, determine South Africa's economic diplomacy. The difficulty with these policies is twofold: one is the need to coordinate the policy, which, when reading the various policy papers, lacks consistency. Secondly, and more specifically, high-level policies will have to be fleshed out in order to translate them into specific actions. This in itself, however, does not translate into successful action with regards to presenting South Africa as an attractive economic destination and desirable partner.

In 2010, the DTI prepared briefings on political and economic relations between South Africa and the PRC and presented them to Parliament. The Chief Director of the DTI's International Trade and Economic Development Division briefed the Committee on trade and economic relations between South Africa and China in May 2010<sup>2</sup>. The briefings analyse the trade structure between China and South Africa, as well as Chinese drivers for political and economic relations with the African continent (and specifically with South Africa). According to the Parliamentary Monitoring Group (PMG), questions particularly addressed the absence of the issue of human rights violations in the presentation, noting that South Africa used to be subject to sanctions on these issues – thus making a specific link to idealistic policy goals. Members of Parliament also queried the notion of economic diplomacy. With regard to the various steps that South Africa-China relations took and the various forums in which engagement is happening, the Chief Director reported, according to the PMG:

*"When looking at the evolution of South Africa-China relations, one has to consider both bilateral and multi-lateral partnerships. South Africa had a One China Policy in December 1997. Diplomatic relations were established in January 1998. The Pretoria Declaration on Partnership was issued in April 2000. A Bi-National Commission was established in 2001. A Strategic Partnership was declared in 2004. A Programme for Deepening Strategic Partnership was established in June 2006. A Comprehensive Strategic Partnership was agreed upon in principle during 2010 and a state visit by President Jacob Zuma to China in August 2010 was proposed. In terms of a multi-lateral partnership there was support for South Africa's non-permanent seat on the UNSC from 2011-2012; a common vision on climate change (BASIC grouping); South-South Co-operation (G77 and China and New Africa-Asia); strategic partnership (NAASP); support for South Africa's BRIC membership; and co-operation in the G20."* (PMG 2010)

When considering actors, party-to-party relations as well as interactions at the local political (municipal) level have to be mentioned too. South Africa's ruling party, the African National Congress (ANC), and the Communist Party of China (CCP) have been involved in various discussions. Chinese and South African provinces have been seeking ways of deepening their relations through sister-city relationships. Economic cooperation is the primary concern of both sides. Since 1998, Beijing and Gauteng, and Shandong Province and the Western Cape, have established sister-city relationships. Most provinces of South Africa have signed a sister-province

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<sup>2</sup><http://www.pmg.org.za/report/20100526-department-international-relations-and-co-operation-political-relatio>

or sister-city agreement with various Chinese counterparts (Chinese Embassy 2013). These “sub-state entities” also play roles in economic diplomacy. From these cases, it is possible to observe that government officials and diplomats, the so-called state actors, have actively engaged in relationships with South Africa.<sup>3</sup>

Besides the sub-national level, international forums are obviously an additional arena in which South Africa and China interact. One of the latest – and highly acclaimed – forums is South Africa’s accession to the club of emerging economies dubbed BRICS (Brazil, Russia, India and China, and, since 2011, also South Africa). While the specific purpose and tangible results of the BRICS grouping is debatable and appears to vary across participating nations (Grimm 2013), these interactions provide for high-level meetings which often include a significant participation by large business delegations. Consequently, if nothing more, these meetings are an opportunity for business networking and for state-facilitated deals between participating nations; China is certainly by far the most relevant partner.

A major dimension of such economic diplomacy is in the form of interaction with countries, not least through diplomatic missions abroad. Consequently, the DIRCO’s presentation to Parliament in September 2012 emphasised that its strategy document should (a) clarify “the role of diplomatic missions and how they could support SA’s business sectors in pursuit of economic and national interest; [b] clarify the distinctions and complimentary relationship between Economic and Commercial diplomacy in the bilateral and multilateral environment; [ and c.] instruct diplomats on how they can support business sectors, trade and investment delegations, province, cities and not the least, provincial development agencies” (DIRCO 2012).

South Africa’s diplomatic missions, the DIRCO, and other agencies, attempt to “sell” a South African image in order to foster economic interactions for the benefit of the country. While some missions host DTI staff (for Hong Kong, see below), the major onus in fostering interactions is with diplomats, whose sense of business and business challenges might be more limited than with DTI staff. While this is a challenge for all diplomatic engagement and missions globally, the setting is a specific one for engagement with the various parts of China.

### **3 South Africa – China relations**

Economic diplomacy is the process of maximising national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges. In terms of South Africa’s foreign policy towards Taiwan and China, the tremendous commercial opportunities with China, one of the most significant emerging markets, shaped South Africa’s economic diplomacy and led to the decision to support Beijing’s One-China policy. Growing bilateral economic relations between South Africa and China have had formidable implications.

Following diplomatic recognition of the PRC in 1998, South Africa and China have exchanged a number of high-level visits that resulted in a range of agreements covering various issues including economic cooperation. How did this mutual interest evolve and what are its main drivers?

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<sup>3</sup> Most of the major South African cities (9) also used to have so called twin cities relationships with Taiwanese cities (Lin 2001: 360).

### **3.1 South Africa – China political interests in each other**

China and the ANC did not share much in the way of a united struggle history. While during the Cold War the global South's liberation movements drew on support from the socialist bloc countries, the Sino-Soviet split (1959) and their hostility towards each other during the Cold War, entailed that African liberation groups supported by the USSR could not receive simultaneous support from Beijing. This led China to make some strange bedfellows, such as the PRC's support for Jonas Savimbi's Union for the Total Independence of Angola (UNITA), in their struggle against the Communist-inspired People's Movement for the Liberation of Angola (MPLA), supported by the USSR. With regards to South Africa, Beijing supported the Pan-African Congress (PAC); this was because the USSR had already secured relations with the ANC, thus precluding closer ANC-China relations. Despite this, China was never a supporter of the Apartheid regime. Beijing's foreign policy was, and continues to be, dictated by an "anti-hegemonic" approach, particularly with regard to African states (Taylor 2006). This dovetailed with the general ethos of the ANC as a party of liberation struggle, not to mention that both countries' ideologies were informed by strong socialist traditions.

In 1999, President Mandela made the first state visit to China after the formal diplomatic relationship had begun. In 2000, President Jiang Zemin visited South Africa. At that time, the two heads of state signed the "Pretoria Declaration on the Partnership between the People's Republic of China and the Republic of South Africa" which, for the first time, highlights enhancing the partnership from both sides (Chinese Embassy 2013). Highly visible diplomatic visits to South Africa have taken place since, the most recent of which were President Zuma's visit to Beijing in 2010 and President Xi's visit to South Africa in 2013 during the BRICS summit.<sup>4</sup> This burgeoning South Africa-China relationship formed a contrast to the declining relationship between South Africa and Taiwan.

Shelton (2012) assesses the series of state visits as the highest form of diplomatic contact marking the deepening of bilateral relations. Later, this was to become the foundation for the further development of bilateral relations. In addition to visits by the heads of state, high-level officials such as Chinese foreign ministers, Chinese special envoys to Africa and party members' visits have reinforced the symbolic value. Another important aspect of official visits is that they are accompanied by business delegations, which makes networking with key-decision-makers possible, as well as the effective promotion of businesses (Grant 2011). Currently, official interaction with the PRC is done through the DIRCO-driven Bi-National Commission, which is held at deputy presidential level. It is led by the Joint Economic Trade Committee at ministerial level.

South Africa is of strategic importance to China. For the PRC, diplomatic and political support from South Africa is important; the support from South Africa has provided China with a base in the international community and amongst international organisations and agencies. In the international community, South Africa has often assumed a (somewhat self-declared) role of spokesperson for the African continent. Even if that role might be a bit of stretch, South Africa

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<sup>4</sup> During the funeral of former South African President Nelson Mandela, China was represented by its Vice-President, which can be regarded as a calculated mild diplomatic snub at the former president and its idealist foreign policy that was at times in contradiction to Chinese official policies.



is, indeed, a well-recognised and important player at the African Union and the UNSC. South Africa was a non-permanent member of the UNSC from 2007-2008 and 2011-2012, which affirmed the country's role as a continental leader (as a pivotal or anchor country; see Stamm 2004) with substantial impact on Africa's agenda. Thus, China's approach to South Africa is sometimes seen as China's Africa strategy in the broader context; South Africa, albeit just one state amongst 54 African countries, arguably provides China's African engagement with legitimacy; hence China's invitation to South Africa to join the BRICs club in 2011 (Niu 2011). At the same time, South Africa is undeniably a major economic power in Africa with its economy accounting for 24 per cent of African GDP. Its natural resources and industrial capacity also serve as pull factors for China. All in all, China's approach to South Africa appears to be on a sound footing, which reflects the overall goals of China's strategy and policy towards Africa. Consequently, based on the successfully transformed diplomatic relationship, Beijing and Pretoria have fostered a growing set of political and economic linkages. This has become the conduit for the current investment and trade flow between the two countries.

South African-Chinese economic diplomacy can provide South African actors with a wide range of opportunities, not least with regard to financial flows. China has assisted in various projects with regard to cultural, scientific and technological cooperation with South Africa. South Africa is one of the top ten recipients of China's Official Finance to Africa, including the equivalent of what the OECD-DAC country account for as official development assistance (ODA) and other official flows (OOF). The methodology for this financial assessment can be criticised, as it builds on media coverage of agreements (not all of which ultimately come through). Yet, from 2000 to 2011, South Africa is estimated to have received US\$ 2.3 billion. In addition to this, in 2011 the Development Bank of South Africa and the China Development Bank signed a financial cooperation agreement for US\$ 2.5 billion, the two banks aiming to invest in mining, infrastructure, transport, communication, energy, and agricultural projects in South Africa (Strange et al 2013).

The relationship between South Africa and China has been dubbed by China, a 'comprehensive strategic partnership' in 2011 (SouthAfrica info 2011; Chinese Embassy 2013). The (somewhat opaque) concept of strategic partnerships seems to have a non-Western background (Stahl 2012). While "comprehensive strategic partnership" sounds quite exclusive, the term is used for a larger number of relations by the Chinese side. It appears to signify that while China is engaged in numerous foreign relations, some are of them are more important than others. It is thus a symbolic nuancing to differentiate between the depth of bilateral relations. In order to maximise the opportunities, South African diplomats need a proactive approach; the Chinese side claims to be only active if asked for specific activities. This necessity for a more proactive South African approach will eventually have an effect on the affirmation of national economic interests.

During interviews with Chinese officials, it was possible to observe China's willingness to deepen bilateral relations with South Africa. The Chinese side appear to hope that this cooperation will become a useful tool to serve economic diplomacy. However, some interviewees express their concern that the reaction from the South African side is relatively lukewarm, even though South Africa can benefit from the suggestions (Interview, 13 June 2013). Valsamakis (2012: 229) is of a similar opinion, noting that South African actors at government level seem to lack enthusiasm to develop a "common national interest." This is in stark contrast to the PRC and Taiwan which

have long-term overarching development goals and where government agencies work in a coherent and coordinated manner.

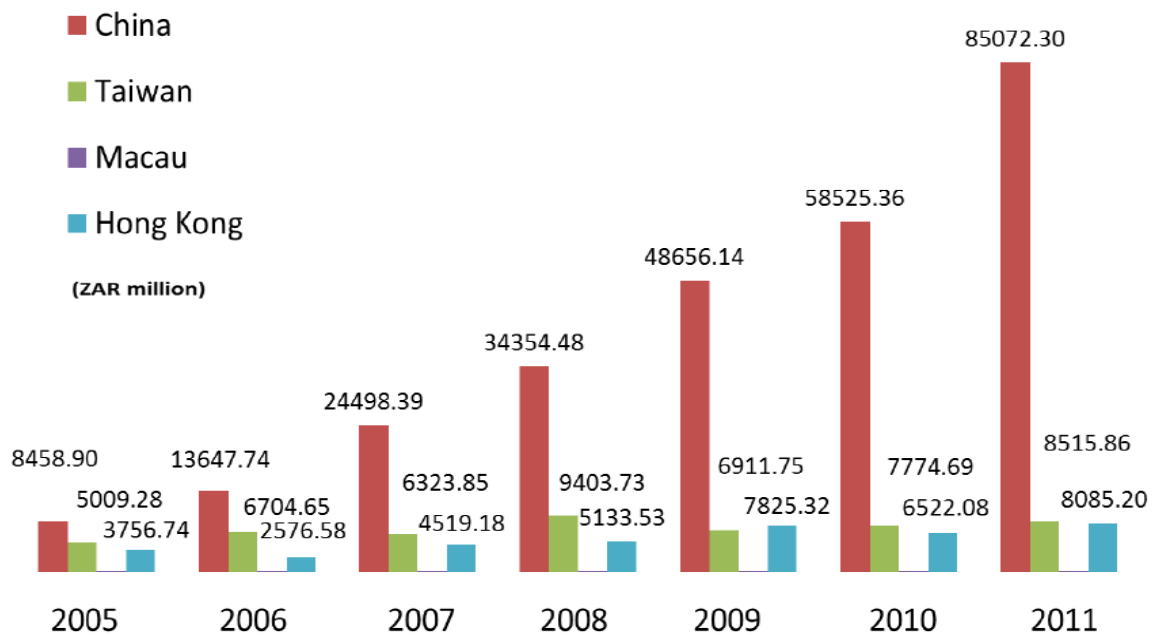
Regardless of whether they are Taiwanese or from the PRC, views of South Africa as a leading country on the African continent are significant. Many commentators cautiously forecast that Nigeria will replace South Africa in this regard in the near future. However, one of the interviewees from the Chinese side believes that South Africa's leading position on the continent will not change in the near future (Interview, 19 June 2013). This is the reason that international corporations and foreign countries have set up their regional headquarters or trade offices in South Africa. However, South Africa's reputation as an investment destination has not quite lived up to this political assessment.

### **3.2 South Africa – China economic relations**

South Africa and China's bilateral trade started in earnest in 1992 when China's Ministry of Foreign Trade and Economic Cooperation opened an office in Johannesburg, South Africa. At the time, trade volume was approximately US\$ 250 million (Shinn and Eisenman 2012: 345). Since South Africa announced that it would recognise the PRC, the trade volume has rapidly increased to US\$ 3 billion. In 2011, the trade volume stood at ZAR 85 billion, roughly US\$ 11 billion (see diagram below).

Along with the symbolic expressions of solidarity through the diplomatic ties between South Africa and China, economic ties have evolved. For China, South Africa is the most significant trade partner on the continent and bilateral trade makes up nearly 20 per cent of China's total trade with the continent (Shinn and Eisenman 2012: 349-350). This has had multifaceted implications for South Africa's domestic economy, although the nature of the benefits derived from it is not uncontested. For instance, China's vigorous trade in manufactured goods has caused domestic concern. Some sensitive industries such as textiles have been negatively affected by imports of mass-produced (and cheaper) Chinese products; these past developments have led to negative perceptions of Chinese engagement in (South) Africa. On the one hand, with inexpensive Chinese products available, a broader spectrum of the population can now afford certain consumption or household items and in this way trade with China has contributed to people's well-being. On the other hand, these Chinese mass products have driven local manufacturers out of the market. Additionally, South Africa's dominant position in the African market has come under threat. The manufacturing sector in particular has been affected. It is estimated that 75,000 jobs have been lost in the South African manufacturing sector (Edwards and Jenkins 2013). The importing of cheap Chinese goods in particular has been criticised by trade unions in the textile sector. Trade and investment between China and South Africa has reached a peak, but the nature thereof is obviously asymmetrical.

**Diagram 1: South African trade with the parts of China**



Source: Department of Trade and Industry, South Africa

South Africa's natural resources, market size and political stability attract Chinese businesses. South Africa is arguably also seen as a springboard and convenient base from which China can expand its influence to other countries in the region; this is particularly the case for industries which require sound and reliable governance structures, such as financial services. For instance, China's imports from South Africa are still mostly raw materials, while South Africa imports manufactured goods. It has been pointed out that trade between the two sides is unbalanced. The 2011 figures of the National Bureau of Statistics of China show that trade with South Africa is very small compared to China's trade with other countries that are considered as being in the same economic class as South Africa. However, this pattern has changed since 2010 and the bilateral trade seems to be becoming more balanced (Shinn and Eisenman 2012: 349-350). In 2012, Jacob Zuma, showed his concern by saying that the unbalanced nature of Africa's trade ties with China is "unsustainable" at the opening session of the 5th Forum on China-Africa Cooperation, Beijing, China (The Presidency 2012). In this context, it is noteworthy that Hirschman (1980) argues that foreign trade becomes an instrument of national power only if one trading partner benefits more from the bilateral relationship.<sup>5</sup>

<sup>5</sup> It should be noted that the Chinese government gave zero-tariff access to African countries for a range of products. Zero-tariffs were first agreed upon during the second FOCAC meeting in 2003. These goods now include manufactured goods from Africa. In 2005, China first implemented zero-tariffs with regard to 190 commodities imported from the Least Developed Countries in Africa. During the third FOCAC meeting in 2006, zero-tariff commodities were expanded from 190 items to 440 items. As of 2013, there are 454 commodities under zero-tariff treatment imported from 30 least developed countries in Africa. Zero-tariff commodities mostly include manufactured and processed products such as plastics, chemicals, industrial tools, vehicles, machinery, and spare parts. The policy aims to strengthen the competitiveness

In order to lessen the trade deficit, South Africa and China have sought a way to ensure a more-symmetrical relationship. To increase economic security, despite the tremendous economic pressure from China, South Africa has formulated structural policies and entered into bilateral trade and investment agreements aimed at achieving specific trading patterns in favour of South Africa. South Africa, which has better a manufacturing capacity than other African countries, has more competitive advantages vis-à-vis China. South Africa can attract Chinese investment in the production sector. In that way, South Africa can change the pattern and instead of only offering raw materials, it can export semi-finished or manufactured goods (Sandrey et al 2013). China can be a potential source of growth for highly-industrialised sectors. Additionally, China's economy has become mature and its economic growth has slowed down. These aspects afford South Africa new opportunities but also challenges (see box on Hisense below).

**Box 1: Hisense investment in Cape Town/Atlantis, Western Cape**

Hisense (Ch: *Haixin*) entered the South African market in 1997 and it has continuously expanded since then. In 2013, the company established its industrial park in Atlantis in the Cape Town metropolitan area, Western Cape. In 2013, the company already had 30 per cent of the market share in TV sets. As a result of the expansion in Atlantis, Hisense is expected to create more than 1,200 jobs (Little 2013; Huang and Ren 2013). At the opening ceremony of Hisense, high-level government officials, including the South African Minister of Economic Development, Vice Foreign Minister, Western Cape Province's governor, and several mayors, together with the China-African Development Fund's vice president attended the ceremony, showed that the PRC and South African governments both put emphasis on the success of the company. From the Chinese side, the opening of Hisense may diminish the country's negative image as it actively involves the extractive industry, and furthermore strengthens the company's brand image; it is not least from this perspective that the involvement of the China-Africa Development Fund (CADFund) can be explained. CADFund is an equity fund located within the China Development Bank, used for the facilitation of Chinese investment in African countries (see Grimm and Schickerling 2013). South Africans hope for assistance by creating urgently-needed jobs and reviving what is a structurally-weak part of Cape Town. It is also hoped that Hisense - which does not only assemble parts, but also has a full production line - will lead to technology transfer.

Often neglected in the debate, but valid specifically for South African business, is the fact that China is also a large potential market for South African businesses. Compared to other African countries, a significant difference of the South African economy was that it became integrated in the international economy at an earlier date. The mining sector, since the discovery of gold and diamonds in the late 19<sup>th</sup> century, enabled sustained relations with European countries, especially the United Kingdom, in terms of ownership and sector control, amongst others (Goldstein and Prichard 2009). Large firms have expanded into South Africa and other African countries (often with a base in South Africa), especially in the post-Apartheid period since the mid-1990s. These large companies also see business opportunities in China, with its large population and growing

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of African imports in the Chinese market, increase African commodity exports to China, and encourage the establishment of beneficiations in Africa.

middle class, often operating via Hong Kong SAR as a basis in East Asia (see section on Hong Kong below).

### **3.3 Chinese economic diplomacy towards South Africa**

When expanding into foreign markets, large firms often use go-it-alone strategies instead of seeking assistance from embassies. However China differs from many other countries in that it gives unprecedented support to its (large-scale, state-owned) businesses by formulating various instruments and mechanisms; private companies benefit much less from this support (Shen 2013). The PRC government agencies have become the mainstay for managers in China. Economic diplomats also monitor and report on economic policies in foreign countries and give the home government advice on how best to influence them. For instance, the Chinese embassy in Pretoria provides information on markets and personal security in South Africa to investors. Chinese investors are especially concerned about South Africa's lack of (personal) security. With regard to this, one of the official's tasks is to collect data through regular meetings with local police and to watch the situation closely. Also, the Embassy provides information to those who wish to invest in China. In addition to consular work, informing home business associations and individuals about South Africa has become one of the diplomatic missions' duties. Sometimes they are also approached by South African businesses to check the credibility of Chinese partners. It is not clear whether South African embassies play a similarly-supportive role.

China has used various economic diplomacy tools in order to promote economic ties with developing countries. Under the "going global" slogan, it has created various "business-promotion instruments" (Bräutigam and Tang 2012). A prominent example of these instruments is the China Export-Import Bank (China Eximbank), which is owned solely by the Chinese government and is in charge of export and import credit and loans for offshore contracts and overseas investment (China Export-Import Bank Website 2013). The China Development Bank is another financial institution promoting China's strategic outbound investment (Bräutigam and Tang 2012). With the help of investment from CADFund, a number of projects in South Africa run in partnership with Chinese SOEs (Li 2013, cited in <http://www.chinaafricarealstory.com/>). According to CADFund, South Africa has a well-developed system to deal with foreign investment and therefore the government does not give "preferential" treatment to Chinese investors, which is different from what happens in other African countries. Yet, one can also argue that the South African government does not fully take advantage of bilateral economic cooperation with China. This can be seen, from the Chinese perspective, as a lack of willingness to cooperate. Looking at inward foreign direct investment (IFDI) of South Africa, it is possible to see the volatility of FDI inflow due to uncertainty regarding government policy in terms of key economic issues, such as nationalisation of the mining sector. This undermines the confidence of foreign investors. Even though South Africa can still attract other investors as a result of its natural resources, Wöcke and Sing (2013) argue that the economic growth is not keeping up with social needs, not least so in terms of employment creation. Under the circumstances, it is crucial for South African actors to make the right decisions in the national interest and to actively cooperate more.

Along with the unprecedented support from the government, Chinese state-owned companies have been actively involved in South Africa's resource extractive sector. Chinese companies that invest in South Africa thus far have done so mainly in the mining industry. South Africa ranks

second in China's mining investment in Africa. Chinese companies presently involved in South Africa include Zijin Mining, Minmetals, Jiquan Iron and Steel (Jisco), East Asia Metals, and Sinosteel (Kabemba 2012). According to Bowker (2008), Zijin Mining Group Company is developing Blue Ridge mine and Sheba's Mine in the north of South Africa. Sinosteel is involved in a joint venture with LimDev to operate a chromium mine in Limpopo, and has invested in the development of another one with Samancor.

Recently, this pattern of Chinese investment in South Africa has started to diversify from the resource extractive sector to the service and manufacturing sectors. In terms of the manufacturing sector, manufacturing remains an important sector within the South African economy, given its potential to generate income and employment (see box on Hisense above; noticeable other investments include e.g. automobile production).

One of the more recent and noticeable phenomena across Africa, and not least in South Africa, is that Chinese investment in the service sector, such as the financial and telecommunication sectors, is growing. China's largest bank, the Industrial and Commercial Bank of China (ICBC), purchased a 20 per cent stake in the assets and earnings of Standard Bank, South Africa's largest bank, for US\$ 5.5 billion. This was the largest single foreign direct investment in the country up to the present time. Also, there is noticeable amount of investment in the telecommunication sector. Chinese flagship companies such as Zhongxing Communications (ZTE) and Huawei Technologies are major leading companies expanding their presence in South Africa.

China has attempted to offset some of the negative consequences of its trade with South Africa. For instance, with regards to South Africa's textile industry, which has been ravaged by cheap Chinese imports, China has a memorandum of understanding (MoU) with South Africa in which 30 South African students have been sent to China to develop textile skills and technology transfer. In another instance, 30 South African officials were taken over to China to observe the running of SEZs in the interest of setting up similar such zones in rural regions of South Africa.

Chinese business' entry into the African market is sometimes accompanied by various forms of alliance at various levels, including both state and private (for mining, see Tapula 2013; Tapula forthcoming). In the case of South Africa, Huawei has linked up with South Africa's largest telecom operator, MTN. As a result of linking up with this local operator, Huawei can use existing networks to sell their products and service lines. Along with that of South Africa, other African countries' increasing demand for mobile services means that South Africa is an attractive entry market for Chinese enterprises (Cissé 2012; Cissé 2013).

Despite this series of remarkable cases of Chinese investment in South Africa, there are several factors that drive Chinese investors out of South Africa. For instance, Chinese investors are concerned about the social environment of South Africa and investors' own physical security. Furthermore, South Africa's strong trade union movements are one of the biggest reasons why agencies do not encourage investment in South Africa. This is also considered a major investment obstacle by mainland Chinese investors (Huang and Ren 2013).

## **4 Hong Kong – Anglophone gateway to China**

In parallel with China's substantial expansion in South Africa, it is noticeable that there are several South African companies which have invested in China since 1994. These South African firms have been successful in penetrating Chinese markets. A commentator notes, "South African corporations have been extremely successful in penetrating the often challenging China market. A handful of firms have been 'industry shapers' in the Chinese economy" (South China Morning Post, March 20, 2012). A prominent example is SAB Miller, which entered the Chinese market in 1994 through its joint venture partner, China Resources Enterprise, Ltd. It has 87 breweries in China and has created over 50,000 employment opportunities (SABMiller Website 2013). Another big South African energy firm, Sasol, has established collaboration with the Chinese coal company Shenhua in Ningxia and Shaanxi provinces. Mining companies such as Anglo American, Anglo Coal, Exxaro, Kumba Iron Ore, Anglo Gold Ashanti and Goldfields are other major players in China. Hollard Insurance, Old Mutual and FirstRand are South African businesses involved in China's financial sector.

In terms of South African businesses' entry into the Chinese market, the role of Hong Kong forming a bridge with the mainland should be noted. In 1997, Hong Kong was returned to China, becoming the Hong Kong SAR. Despite its return to the mainland, the region enjoys a high degree of autonomy. Hong Kong has boasted political stability under the "one country, two systems" policy, which seems to be effectively executed. The city's free market and legal system, use of the English language, openness and free flow of capital are all attributed to this policy. Furthermore, stable economics, highly-competitive skilled labour, good infrastructure including free-trade and free-port with well-functioning infrastructure (including services) offer good business opportunities. These factors strengthen Hong Kong's position as a regional hub and service centre (Shelton 2012). Since Hong Kong's return to China from Britain in 1997, market entry to the mainland has become easier and faster, not only for South African businesses but also for other investors. The diplomatic switch towards China in 1998 was thus a logical step also from a business perspective; the increase in trade with China speaks for itself (see Diagram 1 above).

While direct trade with Hong Kong is far from negligible, it is clearly eclipsed by the figures of trade between China and South Africa. Direct trade, however, is only a small part of the attraction. Hong Kong has played the role of "key economic and diplomatic link" by providing a foothold in China (Shelton 2012: 5). Before Hong Kong's handover to China, South Africa and Hong Kong under British control formed a favourable relationship which made it easier for South Africa to form links with mainland China. The city is an ideal place for South African investors, offering a favourable business environment and living conditions inherited from the British colonial experience. These are reasons why regional headquarters of not only South African but also other international companies are located in Hong Kong rather than China. Consequently, Shelton (2012) notes that Hong Kong is an ideal gateway to China for South African businesses.

The DTI has local staff in Hong Kong who is responsible for establishing linkages between South African and Chinese businesses. The use of local staff is particularly necessary, as one of the key factors for success in China is the identification of trustworthy and solid business



partners. Therefore, local knowledge, including the understanding of culture and language, is particularly crucial. South African activities in Hong Kong, however, are difficult to monitor in their full spectrum. For instance, within the wine industry, it is often the case that individual wine traders will come, sell their goods, and leave again (Interview, 27 July 2013), while other industries include equity funds or headquarters of South African multinational corporations (MNCs) who service the entire East Asian region and choose Hong Kong for the convenience of living and doing business there.

Hong Kong is not the only attractive destination in East Asia. While Singapore is a hub which also attracts MNCs that operate in Asia, Chinese investment aims at upgrading locations for businesses on the Chinese mainland. Thus, Hong Kong might find it difficult to maintain its position as a preeminent gateway to the mainland as other cities on the mainland have grown rapidly. Not least, heavy investments in infrastructure in the direct neighbourhood of Hong Kong, and in and around Guangzhou and the SEZ of Shenzhen, give rise to some worry in Hong Kong of being outcompeted by its direct neighbourhood in Southern China. This can, however, also be regarded as an expansion of a 'hub', with Hong Kong's comparative advantage of the free market economy (in comparison with the more bureaucratic and cumbersome destinations in China) being maintained for some years to come (Shelton 2012). There is a possibility that companies, including South African MNCs, will approach new emerging "commercial gateways", for instance, the recently established Shanghai Free Trade Zone. The success of these endeavours, however, also depends on the free movement of capital. While the mainland is the biggest prize in terms of market size, financial transactions are more easily-conducted through Hong Kong. Interviews in Hong Kong (Interviews, 27 July 2013 and 28 July 2013) confirmed that an individual South African business, which had originally set up its headquarters on the mainland, eventually moved to Hong Kong.

Taiwan was acknowledged by an interviewee as a location with high quality of life, and could thus be considered to be in rather direct competition with Hong Kong as a gateway to China (Interview, 28 July 2013). Certainly, the Taiwanese government is now aggressively marketing Taiwan as an alternative East Asian business hub to Singapore and Hong Kong. However, the cultural linkages and accessibility of Taiwan is less obvious for South African business (as is true for Macau<sup>6</sup>). Additionally, despite more relaxed cross-strait relations since 2008, the political situation between the PRC and Taiwan is considered to be fragile, as opposed to Hong Kong with its predictable treaty guarantees of its open status (Interviews, 26 July 2013 and 28 July 2013). The political risks of doing business in Taiwan from a Hong Kong or mainland China base appear to be considered to be close to negligible by a number of businesses – Naspers investments, for instance, also makes quite a bit of profit in Taiwan. Yet, choosing Taiwan for business headquarters is quite a different consideration, and is far less appealing than Hong Kong for the time being, despite longer historical relations with this part of China.

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<sup>6</sup> The former Portuguese colony and now Special Administrative Region is rather an 'annex' to Hong Kong from a South African business perspective, even if possibly more accessible for Lusophone countries (Alves 2008).

## 5 South Africa – Taiwan relations

Diplomatic relations between Apartheid-era South Africa and Taiwan were strengthened politically through the fact that both states were vehemently anti-communist. Apartheid South Africa, ever suspicious of the encroachment of the PRC and Soviet-backed socialist states in Southern Africa (backed by the Soviet Union and the PRC) was matched by the Nationalist Taiwanese-sustained vigilance against the encroachment of its sworn enemy, the Communist Mainland. While official diplomatic ties with the Taiwan were established in 1949, South Africa sought to deliberately play down the relationship for fear that strong ties might have increased mainland Chinese support for the PAC, a South African liberation movement already supported by the PRC (Pickles and Woods 1989).

The political catalyst which inevitably pressed South Africa and Taiwan into a more robust economic relationship with each other was that both faced growing isolation by the international community. For Taiwan, the major blow came in 1971, when the United Nations General Assembly Resolution 2758 withdrew international recognition of Taiwan in favour of the PRC. For South Africa, it was the growing international condemnation of its despised Apartheid regime. In 1976, South Africa and Taiwan upgraded their ties to full diplomatic relations (including the upgrading of consulates to full embassies), thus further strengthening ties between the two countries (Alden 1997).

From the early 1980s onwards, the relationship developed rapidly, based on the economic interests of both countries. Up until this time, Taiwan, as was the case with other East Asian developmental states such as South Korea, coupled intensive state funding on education, agriculture and infrastructure, with cheap, labour-intensive manufacturing of goods such as textiles and toys and later heavy industry, infrastructure and advanced electronics. In the 1980s, Taiwan started losing its competitive edge in the light manufacturing sector. This was due to a number of factors, including higher labour wages, but also the increased globalisation of its companies. The concurrent economic liberalisation of mainland China during this period also played a role insofar as Taiwanese entrepreneurs began moving their manufacturing bases across the strait, due to lower wages. At this stage, China was but one geographical location, with Taiwan also moving its businesses to other low-cost countries, of which South Africa became an attractive destination (Pickles and Woods 1989). South Africa, on the other hand, urgently-needed foreign investment in the wake of increasing and economically-painful international sanctions. In the 1980s, the government embarked on an industrial decentralization policy to further their aims of segregation: the policy was designed to attract labour-intensive industry to the region's African "homelands"; in doing so, it sought to limit the growth of the black population to metropolitan areas. While the policy attracted a number of investors from Hong Kong, South Korea, and Israel, it was the Taiwanese investors who ranked first in terms of the amount of investment and job creation they could provide (Pickles and Woods 1989). The South African government offered additional support to the Taiwanese by easing immigration procedures and providing them with tax exemptions (Pickles and Woods 1989).

## **5.1 South Africa's diplomatic shift from Taipei**

In the 1990s, when it became evident that South Africa was on the path to democratisation and regime change, the South Africa-Taiwanese relationship increasingly came under strain. As South Africa's international relations started to normalise, Beijing intensified the race between the two Chinas for recognition from the new South African political leadership (Taylor 2006). But, of equal – if not more – importance, was the fact that China offered a potentially massive economic windfall if Pretoria were to switch recognition, not so much in the form of immediate economic reward – which both Beijing and Taipei offer when a country switches over – but rather the establishment of long-term economic ties. Besides the obvious economic rise of mainland China, the potential was overwhelmingly obvious, with China being a permanent member of the UNSC and having a population of 1.3 billion, while Taiwan was internationally marginal and had a population (and hence: market) of 23 million. However, relations already existed with the smaller Taiwan and jumping ship was not an immediate decision made by the new government.

While it would seem apparent that the incoming government, under ANC leadership, was likely to look unfavourably upon countries who were staunch supporters of the Apartheid regime, the issue of economic gains tempered such a decision. A former diplomat from Taiwan alleged that the new government of South Africa juggled the two Chinas, pursuing its own national interests (Tseng 2008). On the other hand, the South African government did not regard the issue of the two Chinas as a top priority, as it had to resolve various urgent domestic issues such as rampant inequality, poverty and social unrest inherited from the Apartheid government. Taipei still had relatively strong bargaining power with the ANC, since it financially supported the ANC's 1994 electoral campaign (Davies 1998; Shelton 2006). In addition, Taiwan supported the ANC's Reconstruction and Development Programme (RDP), which required massive investment. In this context, Taipei's economic influence was too substantial to disregard (Tseng 2008). Also, within the sphere of foreign policy, other African issues were considered more urgent, such as the transformation of the regional community SADC to a post-Apartheid setting in 1992, or Nigeria's 1995 hanging of political opponent Ken Saro Wiwa. Inner-Chinese developments might also have led to some hesitation about which partner to choose. China was still working with a somewhat-tainted reputation after the crackdown on anti-government protests on Tiananmen Square in June 1989 and Taiwan, in parallel, underwent democratisation. Thus, despite politically-realist criteria in favour of a switch to China, South Africa did not rush to switch diplomatic recognition from Taipei (cf. Tseng 2008). Tseng (2008) points out that South Africa wanted to maintain dual recognition while it watched and waited to see how the situation with the two Chinas would develop. However, South Africa's recognition of China – and consequently, plying to the “One-China” policy as demanded by Beijing – was in the end inevitable (Tseng 2008; Alden 1997).

Even though Taiwan was one of South Africa's largest trading partners during the 1980s and 1990s, trade with Taiwan was already about to reach a peak as a result of the small size of Taiwan's population and economy (Tseng 2008). South Africa's big businesses were already showing an interest in the huge untapped Chinese market, which they entered following the end of Apartheid in 1994 (Tseng 2008). In addition, the return of Hong Kong to China considerably strengthened the PRC's economic influence in South Africa, providing a gateway to the mainland (Taylor 2002). This economic aspect became the main driver of South Africa's decision to cut its

diplomatic recognition of Taipei. However, interestingly, South Africa did not completely sever relations with Taiwan, and the two countries have maintained unofficial relations through the Taipei liaison offices in Pretoria and Cape Town respectively. South Africa also has the Liaison Office of South Africa in Taiwan. Even though Taiwan withdrew from cooperation in various sectors after South Africa had finally switched its diplomatic recognition, the Taipei government did not force Taiwanese investors to withdraw (Tseng 2008). Beijing did not object to unofficial relations between South Africa and Taipei as long as Taipei did not bring up the sovereignty issue (Singh 1997; Tseng 2008). As a result of Taiwan's increasing isolation in the international community, it has pursued a policy of flexible diplomacy to avoid unnecessary confrontation with Beijing as long as Taiwan can continue serving its national interests (Kan 2012).

Even though Taipei has only minimal political relations with Africa, Taiwan has economic relations based on foreign aid and investment with South Africa as well as Nigeria and Angola, which are China's major economic partners on the continent. This is similar to Taiwanese economic relations with European countries or the USA; liaison offices are established, but they are not considered equal to diplomatic missions of sovereign states. Under the circumstances, pursuing economic interests has become deep-seated in foreign policy decision-making processes. And this has paid off: economic relations have become revitalised since 2005, and South African government officials' visits have resumed since 2000 (Tseng 2008: 259-260).

## **5.2 South Africa's diplomatic relations with Taiwan since 1998**

Since 1998, the promotion of investment and trade has served as one of the fundamental tools of Taiwan's economic diplomacy, achieved through the use of government agencies such as consulates, investment, and export-promotion bodies. South Africa, as an emerging economy and gateway to other African markets, continues to attract a number of Taiwanese entrepreneurs.

It took the newly-elected South African government some time to make the decision to opt for full diplomatic relations with the PRC and downscale relations with Taiwan. The ANC government inherited its white predecessor's strong links with Taiwan. Taiwanese entrepreneurs had already made substantial investments in South Africa and the Taipei government offered support for the ANC through funds for both the election in 1994 (Shelton 2006) and its accompanying socio-economic policy framework, the RDP. President Mandela was eager to preserve links with Taiwan while building good relations with Beijing. Most of the countries recognising Taiwan would probably prefer having diplomatic relations with both Beijing and Taipei. President Mandela apparently operated along similar lines, aspiring to maintain relations with both. This can be seen, for instance, during a trip in 1993 when Mandela, then the ANC President, made a state visit to Taiwan. At that time, government ministers and business representatives accompanied Mandela (Lin 2001). However, Beijing would not tolerate such a move, even when it started diplomatic relations with the USA in the 1970s, as this would appear as if Beijing acknowledged the independence of Taiwan.

According to Lin (2001: 300), President Mandela was not a sole player in the foreign policy decision-making process. While the expectations from the Taiwan side grew, he was under pressure from his own party and its allies, the South African Communist Party (SACP) and Congress of South African Trade Unions (COSATU), the government, businesses and academia, as well as the PRC, which was vehemently against Taiwan's sovereignty. His dual approach led to

a cul-de-sac, in which the diplomatic relationship between South Africa and Taiwan ended in January 1998, opening up a new era for the South African and the PRC's relationship (Lin; 2001: 300). Dr. Lin is one of the former Taiwanese diplomats dispatched to South Africa, and he illustrated the situation as follows:

*"The development of bilateral relations is largely determined by the respective countries' fluid internal and external situations, foreign policy goals, as well as their long term economic and strategic considerations... no matter how hard the ROC diplomats tried to wrestle with the trend of drifting apart, the change of relations was bound to happen... no amount of financial aid or grants could really persuade the South African government to maintain its diplomatic ties with the ROC, once the RSA had decided that its vital national interests and new foreign policy focus lay with the PRC"* (Lin 2001: 337).

Despite the diplomatic cut-off which included, for example, the cancelling of preferential permits to investors (Tseng 2008), the transition was mostly smooth, with the Taiwanese side viewing the gradual transition as a generous gesture by the South African government. According to interviewees, the consideration shown was derived from the close relationship inherited by the ANC from the former National Party government.<sup>7</sup> This is in stark contrast to the Taiwanese experience with other countries which derecognized relations with Taiwan. The one-year grace period granted by the South African government gave Taiwanese expatriates in South Africa sufficient time to consolidate property. During this period, Taiwanese people could sell their businesses and properties in South Africa without huge haste and incurring losses. Interestingly, some former diplomats have become politicians-turned-businessmen and have stayed on in South Africa, utilising their knowledge of, and networks in, the country. Diplomats have profound knowledge of foreign languages, cultures, local customs and changing politics. Furthermore, their knowledge of international trade, investment and business norms are useful when they change their careers and settle in the business sector. Currently, these former diplomats are engaged in various sectors such as fishery, forestry and information and communications technology (ICT); they often play leading roles in these industries.

At present, Taiwan has liaison offices in Pretoria and Cape Town which are in charge of consular services as well as promoting economic, trade, cultural, educational, scientific, financial, and other exchanges and cooperation between Taiwan and South Africa, in order to expand Taiwanese influence in non-diplomatic and non-political areas (Interviews, 5 June 2013 and 7 June 2013). Nevertheless, Taiwanese diplomats at representative offices seem to have experienced hardship in terms of making contact with their South African counterparts. However, the limited access to the South African government does not mean that no communication exists between the two sides; both parties have maintained working-level relations through liaison offices. At government level, various interactions still occur at director-general level instead of ministerial level, as was the case before 1998. Even though the discussion

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<sup>7</sup> The relationship which grew between South African and Taiwanese diplomats was reinforced through the exchange of embassies and the setting up of respective missions. Also, a number of high-profile Taiwanese diplomats studied for degrees in South Africa while they served in South Africa. Some of those who returned to Taiwan still work for the Ministry of Foreign Affairs. Other former diplomats who left South Africa have moved to neighbouring countries like Lesotho and Swaziland, and continue to serve their country.

level between the two countries has been downgraded, both sides have tried to make cooperation more workable and practical. For example, South Africa and Taiwan have held a “South Africa and Taiwan Dialogue Forum” annually since 2002. One of the prominent results is that South Africa and Taiwan have agreed on an MoU in various areas including agriculture, fisheries and forestry. These sectors play an important role in the economic development of Taiwan, providing capital, labour and a market for industrial development as well as laying the foundation of Taiwan’s economy. Based on its competitive edge in these areas, Taiwan has sought to deepen cooperation with South Africa. Also, South Africa’s exports to Taiwan in these primary production sectors are seen as having potential. Taiwan has engaged with South Africa through various types of international cooperation, such as medical assistance, agricultural cooperation, and training programmes which include scholarships for government officials.

Because Taiwan sees itself as a world leader in science and technology, a Science Cooperation Committee was established in November 2009. Cooperation in the health sector is a new frontier. Climate change is seen as another key area for collaboration. These mark a new commitment by both sides to work together in certain areas. This cooperation, which involves aid, functions as a pivotal instrument of Taiwan’s economic diplomacy towards South Africa. It will help boost the image of the country and may yield opportunities for the donor country in terms of trade and investment (Rana and Chatterjee 2011: 21). Additionally, the role of non-state actors as facilitators has been significant. In addition to the diplomatic channel, namely, ministries and embassies, the roles of the Africa Taiwan Economic Forum (ATEF) and the Taiwan African Business Association (TABA) have become significant in promoting trade and investment. These actors have become one of the elements which are treated seriously within the multifaceted contemporary foreign policy towards South Africa.

Even though Taiwan is a *de facto* autonomous actor in international relations, the entity has limited diplomatic relations and cannot function as effectively as it used to. As mentioned earlier, Taiwan and South Africa are only able to co-host at director-general level consultation meetings. The DTI deals with Taiwan under the auspices of a “special administrative province”; an interviewee at the department claimed that they do not sign “agreements” with Taiwan but rather have “arrangements” signed with the Taiwan Liaison Office. The “South Africa-Taiwan Consultation” is led by the DTI and, from the Taiwanese side, by the Ministry of Economic Affairs; the consultation is chaired at the Chief Director Level, with director-general level officials participating on the South African side. Considering the hierarchical organisational structure of government, it thus takes longer to implement decisions made during discussions than it would have done during the previous era of a formal diplomatic relationship. All issues discussed need to now go through a minister who finally confirms the agendas discussed at director-general level. Another problem is that, while the Taiwanese side only holds director-general level meetings with South Africa, too many high-level government official visits from the PRC indirectly put pressure on the Taiwan-South Africa relationship. In fact, the Taiwanese government has experienced similar problems in other countries. Even though there seems to have been no intervention so far when the Taiwanese government advances its relationship with other countries, many countries, especially those which need China’s development assistance, appear weary of evoking rejection if they build a relationship with Taiwan.

Taiwan is willing to deepen the bilateral relationship with South Africa. Taiwan still maintains that it is a sovereign state. However, the Taiwanese do not bring up this politically-sensitive issue in order to maintain the relationship in general. Furthermore, most of the Taiwanese interviewees highlight that cross-strait relations have become more open, stable and predictable than ever. Based on this, the Taiwanese put emphasis on the fact that engagement with Taiwan will not cause trouble for South Africa and its relationship with the PRC. Besides, Taiwan's broader global strategy has been to move away from winning new diplomatic allies. It is now rather focussing on strengthening its trade and investment links with other nations. Nevertheless, the downgrading of its diplomatic status has posed a series of challenges, particularly on the Taiwanese side, as to how perpetuate engagement with South Africa. An obvious side channel which has emerged is the use of non-state actors, which can engage with various actors without having to tip-toe around China. Despite the reach which such organisations have, they are, at the same time, no substitution for full diplomatic relations. From even a purely economic perspective, it is evident that the lack of access by Taiwan to key decision-makers in the South African government has had a negative influence on economic relations. Within South Africa, as in the PRC and Taiwan certain government officials have significant business interests, some of which are intimately linked to their business interests in third countries.

### **5.3 South Africa's economic relations with Taipei**

Taiwan was one of the largest sources of FDI during the Apartheid regime in the 1980s. According to the Department of Investment Services, the current volume of investment in South Africa is US\$ 1.5 billion and the main focus is still on the manufacturing and service sectors.<sup>8</sup> However, Taiwanese investment in South Africa has dropped significantly when compared to its previous high levels. There is a significant imbalance of investment between Taiwan and South Africa. In fact, there is no significant South African investment to be found in Taiwan. From 1952 to February 2013 there have been only 73 cases of South African investment in Taiwan (Interview, 2 May 2013). Considering the highly-advanced economic structure of Taiwan, it might have proved difficult for South African investors to enter the market. Additionally, the Taiwanese population of 23 million may not have been as attractive to the South African business sector when compared to the neighbouring mainland, with a population of 1.3 billion (Interview, 2 May 2013).

At the height of this relationship, 50,000 Taiwanese people resided in South Africa. At present, the population is less than 10,000 (Interview, 2 May 2013; see diagram 2 below). An intriguing aspect of the exodus of Taiwanese investors is that it is not the result of the diplomatic relations between the two sides, but rather stems from South Africa's own deteriorating business environment. According to Shelton (2012), during the process of South Africa's diplomatic switch from Taiwan to the PRC, Beijing did not object to continuing economic relations between South Africa and Taiwan. Pickles and Woods (1989) also point out that the flight of Taiwanese people was due to South Africa's own adverse political and economic climate. Taiwanese investors started leaving the country during the late 1980s, and South Africa's increasing crime level and threats to physical safety have been listed as the top reason as to why so many Taiwanese people have returned to Taiwan or headed for other countries. Additionally,

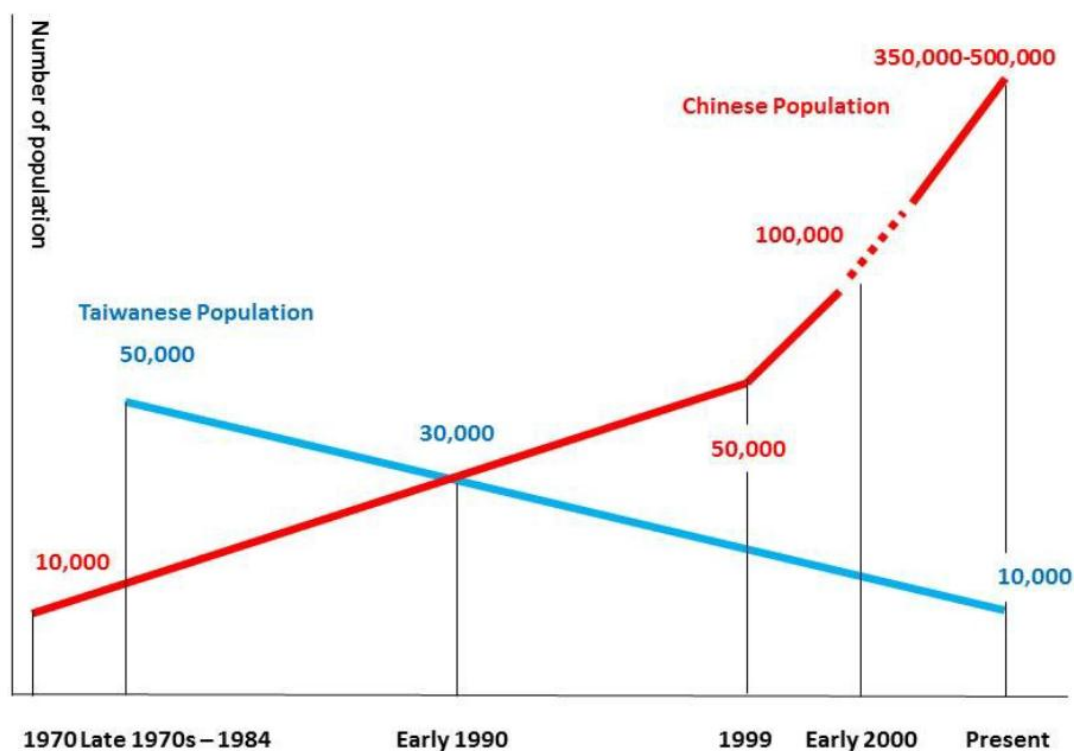
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<sup>8</sup> Taiwanese investors remain focused on textiles; however, high-end products have replaced cheap goods (Interview, 2 May 2013 and 4 June 2013).



the new government under transition lacked the control and capacity to govern the situation effectively. According to Taiwanese as well as Chinese government officials and investors, the deteriorating conditions in South Africa discouraged many investors. The increased power of labour unions following the fall of the Apartheid regime was another substantial reason for the Taiwanese exodus. One Taiwanese interviewee stated, “After 2000, 70 per cent of investors left because of wage demands from labour unions which negatively affected investors’ profit margins, and 30 per cent left the country due to security reasons ” (Interview, 2 May 2013). Furthermore, without formal diplomatic relations, Taiwanese people were left more vulnerable insofar as they had no official authorities who could protect or represent them in South Africa (Interview, 2 May 2013).

**Diagram 2: Estimates of Chinese population from Taiwan and the PRC in South Africa**



*Source: compiled by authors*

There was also a shift in terms of the internal migration patterns of Taiwanese people within South Africa itself. This was also mostly the result of security concerns and changes in the nature of businesses. Taiwanese entrepreneurs used to focus on the textile industry based in rural homeland areas. However, due in part to the steep rise in the minimum wage and strong trade unionism in South Africa already mentioned above, they increasingly became engaged in other industries such as fisheries, retail, and the trading of automobile parts. Taiwan’s influence on South Africa’s industrial development and local economy is considerable. Prior to 1998, Taiwanese entrepreneurs invested in 620 businesses in South Africa, spending a total amount of US \$1.5 billion, and employed approximately 45,000 local people. A factory in Ladysmith in KwaZulu-Natal hired approximately 1,000 local employees. However, for example, Newcastle in

KwaZulu-Natal, where Taiwanese-owned textile companies were concentrated, has been under an economic recession since these businesses have closed. This has been accompanied by job losses and has affected the entire local economy.<sup>9</sup> The movement into metropolitan areas has become the new trend. The movement into big cities such as Johannesburg and Pretoria in Gauteng (3,000-4,000 Taiwanese nationals), Durban (1,000 Taiwanese nationals) and Cape Town (600-800 Taiwanese nationals) is noticeable (Interview, 2 May 2013).

Another aspect indirectly influencing the migration of Taiwanese investors is the growing attraction of other non-African regional markets. China and Southeast Asian countries have drawn attention as new investment destinations based on higher labour productivity, geographic proximity and ethnic connections, and this has adversely influenced investment in South Africa. In reality, Taiwanese investment has increased due to the liberalisation of trade and investment between Taiwan and the PRC.<sup>10</sup> Since the Taiwanese economy has been rapidly integrated into China's markets, it is inevitable that South Africa will battle to attract Taiwanese investors. Throughout the interviews conducted, it was evident that the Chinese side does not interfere with, or discourage, Taiwanese investment in South Africa at either diplomatic or individual levels. Even though conflicts might arise at the low-end of the market or in illicit trade deals, these remain marginal since the two groups focus on different markets (Interview, 4 June 2013). It is not clear how the PRC and Taiwanese sides work at diplomatic level in the case of a conflict of interest between their respective nationals.

#### **5.4 Trade between South Africa and Taiwan**

As an island which lacks natural resources, trade has been the major engine for economic growth in Taiwan over the past several decades, and trade currently accounts for 75 per cent of its GDP. For Taiwan, trade has been one of the most important tools for economic diplomacy, and the government has taken various approaches at bilateral, regional and multilateral levels where the country enjoys comparative advantages. Various government agencies are involved in promoting inward and outward trade between Taiwan and its counterparts. Despite its diplomatic limitations, Taiwan has exerted itself to increase the number of its trading partners worldwide. At present, Taiwan has focussed on free-trade agreements (FTAs) with Central and South American countries with which Taiwan has still maintained diplomatic relationships. In July 2013, Taiwan and New Zealand signed an economic cooperation agreement. Even though the Taiwanese could only send third-line officials to the ceremony and had to keep it low-key, the agreement covers a wide range of issues, such as customs cooperation, dispute settlement, e-commerce, government procurement, intellectual property, labour, and technical trade barriers and is the

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<sup>9</sup> Taiwanese investors in the textile sector were concentrated in Umtata (now Mthatha). This town used to host more than 300 to 400 Taiwanese households. However, at present, fewer than 10 families are left. Bloemfontein used to host more than 1,000 Taiwanese households, but now only has 100 families. This sharp decline in Taiwanese populations in these towns reflects the migration of these investors. The implications of their leaving the local economy is considerable, as discussed above (Interview, 2 May 2013).

<sup>10</sup> This pattern has been recently changed since Taiwanese investment has been switching from mainland China to South East Asia. Nevertheless, between 1991 and 2012, nearly 80 per cent of Taiwan's outward investment in the manufacturing sector went to mainland China. More than 70,000 businesses run by Taiwanese entrepreneurs are operating in the PRC (Chiang 2013).

first free-trade pact that Taiwan has ever signed with a developed country (Taiwan Today, July 17, 2013).<sup>11</sup> It is thus seen as a remarkable achievement of economic diplomacy.

Despite the de-recognition of Taiwan, South Africa and Taiwan have still maintained trade relations. As of 2013, the Bank of Taiwan still maintains a branch in South Africa. The Economic Division of the Taipei Liaison Office and the Taiwan External Trade Development Council (TAITRA) are also based in Pretoria and facilitate bilateral trade. The role of the promotion agencies has already been highlighted as having a strong and statistically significant effect (Morisset 2003; Lederman et al 2006). Taiwan has entrusted TAITRA with promoting trade, joining forces with private associations, and organising various projects to develop global markets in order to maintain balance and stability in trade performance and to drive economic growth (TAITRA 2013). 90 per cent of TAITRA's budget comes from the Bureau of Foreign Trade. TAITRA implements trade policies designed by the Bureau of Foreign Trade. With regard to trade agreements between South Africa and Taiwan, there has been no new agreement after the official diplomatic cut-off. However, TAITRA helps Taiwanese enterprises expand their reach in South Africa by providing market information and organising trade shows (Interview, 5 June 2013).

South Africa's Small Enterprise Development Agency (SEDA) and Taiwan's Small and Medium Enterprise Association (SMEA) have signed an MoU which identifies areas of focus. The development of an international exposure training programme for SEDA participants is envisaged, which will be rolled out until 2015. Additionally, Business Unity South Africa (BUSA) and TAITRA, who meet frequently, decided in 2013 to increase trade missions between South Africa and Taiwan. The DTI promotes agro-processing in Taiwan – namely to get market access for canned fruits, flowers, fresh juices and rooibos tea. These interests will be pursued at the Taipei International Food show 2014. In ICT, Taiwanese actors have planned a workshop on cloud computing in South Africa. There has also been interest expressed in the building of a solar park in South Africa by Taiwanese companies.

Recently, TAITRA organised Taiwanese exhibitors and participated in the Southern African International Trade Exhibition (SAITEX), the largest trade fair for retail products in Africa. 980 companies from 45 countries exhibited at SAITEX and 14 Taiwanese companies producing high-tech products, including solar water heaters, also participated in the event (The China Post, July 3, 2013). An interesting aspect of this exhibition is that China is a co-sponsor of the exhibition. This shows that the two Chinas do not let ideological disagreements interfere with their business. From this case, it can also be seen that, in the economic diplomacy domain, there is no longer a monopoly of state entities; official agents, foreign and economic ministries, diplomatic and commercial services, and non-state actors such as promotional agencies and various enterprises all take part vigorously. These non-state actors are interested in whether these official agencies and the business promotional bodies can help them to navigate their way in their profit-oriented activities in foreign markets, regardless of political ideology.

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<sup>11</sup> New Zealand and China have had strong economic ties based on an FTA they signed in 2008. This trade agreement with both sides of the Taiwan strait illustrates that the PRC does not interference in commercial relations with Taiwan.

In 2011, Taiwan was South Africa's 15<sup>th</sup> largest export destination. South Africa is the 32<sup>nd</sup> biggest partner of Taiwan, and is the 29<sup>th</sup> largest export market and 33<sup>rd</sup> largest import market. However, the volume of trade between Taiwan and South Africa remains small. Taiwan used to be one of the top ten trade partners of South Africa. Presently, trade with South Africa is at US\$ 2.25 billion, only 0.3 per cent of Taiwanese total trade volume. South Africa's trade with Taiwan generally increased in volume during the late 1980s and early 1990s. From 1998, when South Africa de-recognised Taiwan, the volume dropped, but, as of 2003, there was a sharp rise in trading volume. However, considering that the size of South Africa's economy has grown from the 1980s and 1990s, this increase is insignificant, which demonstrates that economic relations between South Africa and Taiwan have been shrinking.

## **6 China – Taiwan relations**

While the switching of formal relations to China is the most obvious reason as to why South African trade with China has soared (and declined in Taiwan), this shift occurred in tandem with a unique moment in Chinese history that has far-reaching global implications. China's shift from a Maoist to market-economy system has spawned the largest, most sustained rise in wealth and development that the world has seen. South Africa's turn to China thus needs to be viewed, more broadly, as part of a global turn to China. The sheer scale of China's markets and its need for resources has captivated South African actors. The rise of China has equally had a profound effect on the Taiwanese economy, which has seen its growing integration with (if not absorption into) the mainland economy.

One of the most remarkable characteristics of the PRC–Taiwan relationship is the disparity between economic and political relations. While China wages a sustained campaign against Taiwan's efforts to declare independence and thus gain nationhood status, its economic relations are comparatively *laissez-faire*, with a recent White Paper stating that China's economic doors have been “flung open” to Taiwan (Taiwan Affairs Office and Information Office of the State Council 1993). Prior to the 1980s, Chinese economic engagement with Taiwan mirrored more closely its current political relationship, as a then still politically-orthodox Maoist China forbade trade with Taiwan; similarly, a nationalist Taiwan forbade trade with China. With Deng Xiaoping's rise to the Chinese leadership in 1979 and the introduction of market reforms, a policy of “peaceful reunification” arose in tandem with indirect trade between the two territories. By the time Taiwan had lifted martial law in 1987, trade, which was still officially banned, had reached a volume of US\$ 1.5 billion (Hui 2005). Taiwan in fact had tried to limit trade (and thus: inter-dependence) but it proved ineffective; lured by China's vast market and sharing common language and cultural affinities, business opportunities were ripe: big business lobbied Taiwanese politicians and smaller companies set up offshore companies to do business with China. By 1997, China was the second-largest market for Taiwanese exports and, by 2001, the first (Hui 2005: 738).

This explosion in economic growth necessitated engaging in international economic agreements, such as GATT (General Agreements on Tariffs and Trade) and, subsequently, the WTO. In 1995, the WTO replaced GATT; China joined the WTO in 2002. The joining of these economic institutions was leveraged for political ends. On the Taiwanese side, because there was no official interaction between Taiwan and China, it was Taiwan's desire that such institutions could be

used to engage with China diplomatically. Additionally, the Taiwanese authorities, in an effort to prevent economic dependence on China so as to maintain their autonomy, showed reluctance to join the WTO because they would have to treat Chinese products as equal to those from other countries. Despite WTO accession, restrictions on cross-strait trade, especially on imports from China, have prevented Taiwan from specializing fully in sectors in which it has a comparative advantage (Drysdale and Xu 2007); under the Trade-Related Investment Measures initiative, it also had to allow investment from China to Taiwan. As in negotiations regarding Taiwan's membership of other global institutions such as the United Nations and the WHO (World Health Organization), China attempted to prevent Taiwan from engaging in such institutions as a sovereign entity. For instance, China objected to Taiwan joining GATT as a sovereign entity, demanding that it join alongside Macau and Hong Kong as an administered region of the PRC. It also avoided engaging with Taiwan in multilateral meetings.

Ultimately though, the benefits of trade between the two entities have trumped political considerations. By 2006, cross-strait trade had reached US\$ 100 billion. Although there were no official travel links during this period, in the same year 4.4 million Taiwanese people visited China; 600,000 businesspeople invested in the mainland; half a million Taiwanese people already lived in Shanghai and adjacent areas (Deng 2008). It has been argued that this shift was a natural one, insofar as cultural and linguistic links facilitated the ease of migration and trade. Wang (2008) has demonstrated how this was part of a larger pattern in which Taiwanese investment has created a regional network to mobilize an ethnic Chinese labour force stretching to South East Asian regions such as Vietnam and Malaysia. But, of equal importance, was the economic dynamics of the territories themselves. In the 1980s, Taiwanese economic growth was due in significant part to its strong manufacturing base which catered to a global market. By the 1990s, it was in fact China which was beginning to assume a very similar role. By the 1990s, Taiwanese average income had soared, making manufacturing costs uncompetitive. Facing rising labour costs, high land prices, more environmental regulation and, most directly, currency appreciation, export-oriented small and medium enterprises in traditional sectors spearheaded Taiwan's investment overseas without government approval (Cheng 2001).

Thus, the shift towards the mainland was an obvious one (not to mention other attractive regions, including South Africa). This massive transfer of economic know-how has led to a series of bilateral economic agreements and frameworks between the two territories. There is the Straits Exchange Foundation, used to handle technical and business matters between the two territories (its counterpart on the mainland is the Association for Relations Across the Taiwan Straits). The Economic Cooperation Framework Agreement (ECFA), signed in 2010, aims to reduce tariffs and commercial barriers (it will boost bilateral trade by US\$ 110 billion between both sides). The ECFA has come under criticism by the pro-independence Democratic Progressive Party (DDP) however, as being a cover for unification with China, leading to demonstrations in Taipei.

Economic realism has largely prevailed in the Taiwan-China relationship. In comparison to the hard politicking involved in the symbolic acknowledgement of Taiwan as a sovereign entity, interference in economic trade has been comparatively minimal. While both sides have indeed drawn on economic agreements to harness political ends, overall, economic interdependency, which has arisen in an almost organic fashion, has overridden these considerations. The dramatic

rise of China's economy has, independently of diplomatic measures, been the most powerful factor in drawing Taiwan more closely into its orbit. Of course, the growing economic dependency of Taiwan upon the behemoth of China suits China's agenda insofar as, at least on an economic level, Taiwan has undoubtedly become more integrated than it was, say twenty years ago (additionally, the return of political power to the Kuomintang (KMT) under Ma Yingjeou has moved Taiwan closer to the mainland in political terms).

The economic pragmatism employed between the PRC and Taiwan sets the tone for Taiwanese interests elsewhere, including in South Africa.

## **7 Conclusions: South Africa's economic policy towards the 'One-China' and its parts**

Increased trade and trade dependence between states produce foreign policy convergence and the fear that foreign policy disputes could interfere with the benefits of trade. Seeking to perpetuate the trade relationship, the state that is more dependent on the trade relationship should be more willing to grant political concessions than the less dependent state. Based on this assumption, it is inevitable that South Africa should recognise China. The diplomatic switch from Taiwan to the PRC is understood in the context of choosing the best for South Africa's national interest.

South Africa's foreign policy has evolved. For example, human rights were one of the core values when the new government came to power. Human rights play a central role in South Africa's foreign policy and its international relations. When South Africa recognised China, there was criticism on both national and international level, questioning South Africa's foreign policy pillars. China has been criticised for seeking after economic benefits at the expense of democracy and human rights. However, as far back as 1997 and 1998, the ANC noted that human rights should be understood in the various contexts (Barber 2005). Landsberg (2005) notes that South Africa's foreign policy was a developmental foreign policy concerned with financing for development. Development through economic partnership is important. The strategic partnership with China is significant in this context. China's investment is seen positively by many South African citizens (Shinn and Eisenman 2012). This has reshaped public perception. According to a recent survey, more than 50 per cent of respondents agree or strongly agree that trade should not be hampered by human rights considerations (Van der Westhuizen and Smith 2013). Shelton (2012) is of the same opinion, arguing that South Africa highlighted investment and trade while human rights issues were overshadowed. Recent research conducted by van der Westhuizen and Smith (2012) confirms that South African citizens have a positive perception towards China as the country's most important trading partner. China is seen to bring about positive outcomes such as helping to solve poverty issues, and is seen as one of South Africa's most significant allies apart from the United States.

In the 21<sup>st</sup> century, economic diplomacy is no longer characterised by a state-centric approach. The ministries and their subsidiaries, the embassies and consulates, chambers of commerce, industry bodies, export-promotion bodies and non-state actors are all involved in economic diplomacy (Rana and Chatterjee 2011). However, in the case of South Africa, most South African investors chose the go-it-alone approach when entering China, based on their accumulated know-how and capital. Big businesses are likely to dissolve their relationship with

the South African government if they don't see added-value in support from the government side and from the DTI and the DIRCO (Valsamakis 2012). Also, in the case of China, most of the investment was done by SOEs; the role of the state has thus been significant until recently, even though this might be changing at the moment. Trade and investment is the mainstay for the Taiwanese economy, and the government's engagement was also significant in providing contacts.

The South African government has noted that the promotion of economic interests is an important part of foreign policy. At the heart of these relations exists an economic pragmatism which links the three territories in ways which are seemingly contrary to overt, official political policies of disavowal. The PRC's relatively *nonchalant* attitude towards the continuation of economic relations between Taiwan and South Africa is acutely reflected in its own substantial – and more recently, officially sanctioned – economic relations with Taiwan. All three parties are, in varying ways and to varying degrees, openly and sustainably committed to economic growth by way of competitive global trade. In comparison to the ideologically, as well as economically, exclusionary nature of international relations during the Apartheid era (and within the context of the Cold War more generally), today's economic engagements indicate a growing primacy in economic relations in all three entities' foreign policies.

However, the South African side needs to make use of more coherent and comprehensive approaches towards China and Taiwan. The goal of South African economic diplomacy seems to be underachieved because of the lack of coordination and understanding amongst ministries, ambassadors and staff. Even though many of interviewees agree about the dominant position of South Africa as a powerhouse on the continent, the competition to secure FDI has become severe. In addition to the worsening social security and labour issues, the shortage of electricity and severe competition with other investment destinations were identified as obstacles to investment. These were consistently identified during various interviews. Thus, South Africa has to improve its socio-economic conditions to attract FDI in sufficient numbers for development plans to materialise. Since diplomacy is defined as how a country achieves its goals, it is assumed to be a dependent variable of foreign policy; thus economic diplomacy is used by a country to put foreign policy goals into operation.

Nevertheless, the issue of political recognition is not merely a superficial background to hard-nosed business interests. Rather, the above suggests that the switching of diplomatic relations has had significant effects on Taiwan's economic relations with South Africa. Regarding relations between South Africa and Taiwan, the interaction is minimal, which appears to be largely the result of South Africa being afraid of aggravating its relationship with China. There is no sign that the PRC deliberately interferes in the relationship between South Africa and Taiwan. Taiwan has exerted itself to enter into economic cooperation agreements with other countries, and the PRC's official position is that Beijing will accept that, as long as the relationship does not interfere with its One-China policy. It seems that China's One-China doctrine is successfully secured through investment and trade and, in this context, state agents seem the most significant actors at the current stage. Scholte (2008) highlights that a state is still an important actor since it is the main actor practising diplomacy and interaction between state and non-state actors at various levels. China and Taiwan use economic diplomacy to attain their political goals, the One-China policy for China and survival as an island country for Taiwan. Although Taipei has only 22



full diplomatic relationships in the world, vigorous investment, trade and FTA with other countries, and the government's unprecedented support for business to achieve this end is worth noting. Consequently, the Taiwanese side has shown strong willingness to promote economic ties with South Africa, and South Africa's economic engagements with other countries including Taiwan can be beneficial to South Africa's economic growth through investment and international cooperation. It can also contribute to socio-economic development.

While Taiwanese trade and investment figures with South Africa have remained steady, relative to the rise of the South African economy, there is still much room for growth. This pattern can be attributed more to the South African side of the engagement than to the Taiwanese. Taiwan has a set of efficient institutions, many of them in the form of non-state actors who actively pursue economic engagement with South Africa. More broadly, Taiwan has largely abandoned its earlier policy of seeking to woo African nations into establishing diplomatic relations; rather, its current strategy is one with an emphasis on economic diplomacy, in which various liaison offices, trade delegations and non-state organisations push for greater trade and investment with their African counterparts.

From the South African side, tepid economic relations have less to do with formal political exclusion than they do with the fact that South Africa has become increasingly enthralled with the vast Chinese market and the opportunities it offers for both institutional and personal business interests. This has resulted in a side-lining of more serious economic engagement with Taiwan, which can be attributed to some of the following factors:

1. In terms of market share, South African investors now target the PRC's population of 1.3 billion; Taiwan's 23 million are a minor addendum to this vast market. While Taiwan is at present aggressively marketing itself as an Asian regional hub which hopes to attract the establishment of global business headquarters, South Africa has virtually no investment presence there, with most South African headquarters being based in Hong Kong due to more stable relations of the latter with the mainland and due to the cultural ease of establishing businesses in an Anglophone environment.
2. As part of South Africa's de-recognition of Taiwan, meetings between two parties' officials have been downgraded in status, with meetings at director-general or deputy director-general rather than ministerial level. Not only does this delay the process of implementing policies, but, more crucially, it prevents access by Taiwanese officials to key decision-makers in the South African government. This has a significant impact on Taiwan's ability to exert economic diplomacy.
3. A culture of self-censorship amongst South African political elites has emerged, in which they tend to steer clear of economically engaging with Taiwan. It is significant to note here that pressure does not appear to be exerted from Beijing. The Chinese embassy is quite open about not interfering in Taiwanese business interests in South Africa. Rather, it appears that South Africa's eagerness to receive an economic windfall from China results in a South Africa anxious not to displease China. Thus, following a "better safe than sorry policy", South African political and business elites tend to not exploit potential business and investment opportunities with Taiwan. This can be situated within a broader critique of South African

foreign policy as over-compensating towards China, exemplified in the recent failure of the South African government to grant the Dalai Lama a visa, which was widely believed to be a result of pressure from Beijing (or could have been due to South African eagerness not to ruffle feathers in Beijing).

This research report thus highlights two seemingly-different processes occurring. On the one hand, a general shift towards global economic competitiveness has ushered in an almost laissez-faire form of economic activity between South Africa and China as well as South Africa and Taiwan. In fact, some critics have argued that Taiwan's growing economic dependence on the mainland has been more successful in integrating Taiwan and China than any other measure taken since their split in 1949. From this perspective, Taiwan's economic engagement with South Africa is perfectly acceptable to the PRC – and in fact, many Taiwanese companies whose goods are sold in Africa run their manufacturing bases in China. This highlights an economic pragmatism shared on all three sides; this situation looks set to increase as Taiwan abandons its pursuit of trying to win over foreign states to officially recognise its sovereignty. On the other hand, the spectacular economic growth of mainland China has sucked South Africa into its orbit to such a degree that Taiwan, despite its best efforts to the contrary, has been economically marginalized by South Africa. Additionally, de-recognition has weakened Taiwanese avenues of influence on South African government. Thus, despite the shift of all three entities towards an economic pragmatism, the power of political influence still exerts its effects on economic influence.

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